CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
INVESTMENT COMMITTEE

MINUTES OF MEETING
OPEN SESSION

September 12, 2011

The Investment Committee met on Monday, September 12, 2011, in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 10:20 a.m. and the following members were present:

George Diehr, Chair
Michael Bilbrey
John Chiang
Richard Costigan
Rob Feckner
JJ Jelincic
Bill Lockyer, represented by Steve Coony and Pam Milliron
Priya Mathur
Tony Oliveira
Ronald Yank, represented by Greg Beatty

Terry McGuire represented John Chiang

Investment Committee members excused:

Henry Jones, Vice Chair
Dan Dunmoyer
Louis F. Moret

Agenda items were taken out of order.

AGENDA ITEM 2 – APPROVAL OF AUGUST 2011 MEETING MINUTES

On **MOTION** by Mr. Beatty, **SECONDED** and **CARRIED** that the August 15, 2011 Open Session minutes be approved as presented.

AGENDA ITEM 3 – AUGUST 2011 POLICY SUBCOMMITTEE REPORT – Revision of the Global Equity Sub-Asset Class Allocation Ranges Policy

Subcommittee Chair Jelincic reported on the August 15, 2011 Policy Subcommittee meeting.

The Subcommittee deliberated upon changes to the Risk Managed Absolute Return Strategies (RMARS) Program, retitled the Absolute Return Strategies (ARS) Program. These changes required revisions to be made to both the RMARS Policy and Global Equity Sub-Asset Class Allocation Ranges Policy.

On **MOTION** by the Subcommittee, the Investment Committee approved revision of the Global Equity Sub-Asset Class Allocation Ranges Policy.

The Subcommittee provided input on the RMARS Policy and agreed that further discussion is necessary. The RMARS Policy will be brought before the Investment Committee as an agenda item at a later date.

In addition, the Subcommittee reviewed revisions to the Global Principles of Accountable Corporate Governance, provided input, and approved the first reading.

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Joseph Dear, Chief Investment Officer, recognized the Real Estate team for successfully restructuring the Real Estate Portfolio.

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AGENDA ITEM 4 – AFFILIATE INVESTMENT PROGRAMS ANNUAL REVIEW

Geraldine Jimenez, Division Chief, and Bryan Karcher, Investment Officer, presented the item. Curtis Ishii, Senior Investment Officer, and Andrew Junkin, Wilshire Consulting, were available to respond to questions from the Committee.

Staff provided an annual overview of the Affiliate Investment Programs, including performance, 2010-11 accomplishments, priorities, and recommendations.

Affiliate Investment Programs are:

- Supplemental Income Plans (SIP)
- Member Home Loan Program
- Legislators' Retirement System
- Judges' Retirement System II
- California Employers' Retiree Benefit Trust
- Long-Term Care

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve one year renewal of investment manager contracts for the following:

- AllianceBernstein US Strategic Value Equity
- The Boston Company Small Mid Cap Growth Equity
- The Boston Company Small Mid Cap Value Equity
- Pyramis Global Advisors Trust Company Select International Equity
- Turner Investment Partners Core Growth Equity
- Pacific Investment Management Company (PIMCO) Short-Term Bond

There was discussion regarding AllianceBernstein's performance and external manager termination policy. Staff was asked to present a detailed SIP review by December 2011.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve interim asset allocation policy targets and benchmarks for the Judges' Retirement System II Fund, the Legislators' Retirement System Fund, the California Employers' Retiree Benefit Trust Fund and the Long-Term Care Fund, as shown in attachment 1 of the agenda item.

AGENDA ITEM 5 – CONTRACTS, Affiliate Investment Programs Multi-Strategy Index Fund Request for Proposal (RFP)

Geraldine Jimenez, Division Chief, presented the item.

A recent IRS Revenue Ruling (2011-1) updated the rules governing group trusts by clarifying that assets of certain governmental retirement and retiree benefits plans may be pooled in a group trust. To facilitate utilizing a group trust for certain retirement and retiree benefit assets, staff will no longer co-invest assets that cannot be pooled in a group trust. Separating the assets that cannot be pooled will result in the need to manage 10 additional portfolios.

The Investment Office does not have the capacity to manage the additional portfolios internally and, therefore, staff requested approval to issue a RFP for an external manager for the following portfolios:

- Long-Term Care Fund – all portfolios
- Health Care Fund – the nominal bond portfolio
- California Employers' Retiree Benefit Trust Fund (CERBT) – equity and real estate investment trust (REIT) portfolios
- CalPERS 457 Plan – the nominal bond portfolio
- State Peace Officers' & Firefighters' (POFF) Plan – the nominal bond portfolio
- Supplemental Contributions Program – the nominal bond portfolio

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve the issuance of a Request for Proposal for passive fund management services.

AGENDA ITEM 7 – TOTAL FUND

c. Infrastructure Investment in California

Joseph Dear, Chief Investment Officer; Ted Eliopoulos, Senior Investment Officer; Randall Mullan, Senior Portfolio Manager; and Todd Lapenna, Portfolio Manager, presented the item.

Staff highlighted the CalPERS Infrastructure Program, including the investment plan, strategic role, investment screening, risk/return framework, and portfolio design parameters. Staff also reviewed Debt Term and Equity Term Sheets which outline the Program's investment requirements.

David Altshuler and John Haggerty, Meketa Investment Group, provided an overview and preliminary assessment of opportunities for investment by public pension funds in California infrastructure.

During the discussion, the following points were noted:

- CalPERS Investment Committee approved the Infrastructure Program strategy in April 2011. Key components of the strategy are a US centric geographic focus, steady income and cash yields, and primarily defensive risk-return strategies. The target Program size is 2% of the total fund or approximately $5 billion.
- CalPERS has current investments in California infrastructure totaling $203 million in net asset value.
- CalPERS has provided credit enhancement for $326 million in California infrastructure bonds.
- CalPERS is prepared to invest up to $800 million in California infrastructure over the next three years as a result of this motion.

On **MOTION** by Mr. Feckner, **SECONDED** and unanimously **CARRIED** to direct staff to:

1. Set a target of up to 20% of the US geographic allocation for infrastructure investments in California, consistent with the Strategic Plan.
2. Communicate the required terms and conditions for CalPERS investment in infrastructure.
3. Evaluate potential opportunities for infrastructure investments in California consistent with the fiduciary duties set forth in Article XVI, section 17 of the California Constitution.
4. Develop a plan for outreach to the State and local governments to explore what role CalPERS and other pension systems can play to facilitate infrastructure investment.
5. Return to the Investment Committee in October with a plan for outreach including identification of staff and resource needs.

The following interested parties spoke in support of the motion:

- Margaret Abe-Koga, City of Mountainview
- Dale Bonner, Cal-INFRA Advisors
- Barbara Cayon, Riverside County Department of Health
- Dave Cortese, County of Santa Clara
- Gerald James, Professional Engineers in California Government (PECG)
- Brian O'Neill, County of Santa Clara

The meeting recessed from 12:40 to 1:20 p.m.

AGENDA ITEM 6 – ABSOLUTE RETURN STRATEGIES (ARS) ALLOCATION

Farouki Majeed, Senior Investment Officer, presented the item. Michael Schlachter, Wilshire Consulting, responded to questions from the Committee.

At the August 2011 Investment Committee meeting, staff discussed a proposed framework for allocating capital to the ARS Program since ARS was not designated as a strategic asset class during the 2010 strategic asset allocation review and, therefore, was not included in the policy portfolio or the benchmark. The Committee directed staff to review the role of ARS and to assess the merit of different frameworks for allocating capital to the ARS Program.

In response to the Committee's direction, staff presented and described the following three potential ARS Program capital allocation frameworks for consideration:

- Framework A – Zero policy weight to ARS / ARS exposure unequitized
- Framework B – Zero policy weight to ARS / ARS exposure equitized
- Framework C – Include ARS weight (2.5%) in policy benchmark

There was discussion regarding the pros and cons of the proposed frameworks and the Committee provided input regarding the content of a future program review and analysis.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve proposed ARS allocation Framework B (zero policy weight to ARS / ARS exposure equitized) for a period of one year. In addition, staff will present a substantive program review and analysis for the Committee's consideration within this fiscal year.

AGENDA ITEM 7 – TOTAL FUND (continued)

a. CalPERS Total Fund Quarterly Report

Michael Schlachter and Andrew Junkin, Wilshire Consulting, provided a 2011 second quarter Total Fund Report on the performance of the Public Employees' Retirement Fund. Executive summaries were also provided for investment performance of the Judges II Fund, Legislators' Fund, Long-Term Care Fund, California Employers' Retiree Benefit Trust, and the Supplemental Income Plans.

It was noted that CalPERS generated a total fund net return of 1.7% for the quarter and 20.7% for the 12-month period ending June 30, 2011. The total fund composite's return was marginally lower than its actuarial rate (1.9%) this quarter, although its one-year track record has outperformed. Over the three-, five-, and ten-year periods CalPERS Total Fund continued to trail the actuarial rate.

Paul Mouchakkaa, Pension Consulting Alliance (PCA), provided a review and assessment of the report as it related to the Real Estate Program performance through June 30, 2011. The total Real Estate portfolio produced a 1.8% return during the quarter and a 10.2% return over the trailing year compared to the Policy Index returns of 3.8% and 19.9%, respectively.

Mike Moy, PCA, provided an executive summary of the Alternative Investment Management (AIM) portfolio performance. AIM outperformed the Long-Term Policy Index by 1.2% and the Policy Index by 0.2% over the latest 10-year period as of June 30, 2011.

The Committee accepted the quarterly reports.

b. Risk Management Quarterly Update

Farouki Majeed, Senior Investment Officer, and Teresa Kennedy, Investment Officer, provided a quarterly update on Total Fund risk management for the quarter ending June 30, 2011. The report included information regarding:

- Total Fund Volatility Trends and Asset Class Volatility
- Currency Risk
- Concentration Measures
- Leverage
- Counterparty Exposure
- Liquidity
- Valuation

The Committee accepted the quarterly update.

AGENDA ITEM 8 – PROGRAM UPDATES

- Corporate Governance Program – Proxy Access

  Eric Baggesen, Senior Investment Officer, reported that the US Court of Appeals for the District of Columbia Circuit overturned the SEC rule to allow shareholders to have access to a corporate proxy statement to put forward candidates for a board. Staff continues to work with institutional investors and shareholders around the globe to support and encourage the SEC to move forward with new rule-making related to proxy access.

There were no items to report for:

- Growth-Public Equity
- Growth–Private Equity
- Income (Global Fixed Income and Liquidity)
- Real Assets (Real Estate, Infrastructure, Forestland)
- Inflation Assets (Commodities, ILB)
- Absolute Return Strategies Program
- Affiliate Investment Programs
- Special Review Implementation Plan – Investment Office

AGENDA ITEM 9 – ACTIVITY REPORTS

The Committee accepted the following activity reports:

a. Quarterly Roadmap Progress Report
b. Quarterly Target Operating Model Update
c. Monthly Total Fund Update
d. Investment Office Assignment Matrix

AGENDA ITEM 10 – AGENDA AND CALENDAR

The Committee accepted the following:

a. Draft agenda for October 17, 2011 – the Chair requested that an item be added to discuss the Real Assets, Infrastructure Program, Delegation
b. Rolling Annual Agenda Item Calendar

AGENDA ITEM 11 – PUBLIC COMMENT

There were no additional comments from the public.

The meeting was adjourned at approximately 3:00 p.m.

The next Investment Committee meeting is scheduled for October 17, 2011 in Sacramento, California.

ANNE STAUSBOLL
Chief Executive Officer